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15 Co-Lead Counsel for Plaintiffs

16 UNITED STATES DISTRICT COURT
17 NORTHERN DISTRICT OF CALIFORNIA
18 SAN JOSE DIVISION

19 In re CISCO SYSTEMS, INC. SECURITIES
LITIGATION

Master File No. C-01-20418-JW(PVT)

20 CLASS ACTION

21 This Document Relates To:

22 ALL ACTIONS.

DECLARATION OF BLAINE F. NYE IN
SUPPORT OF LEAD PLAINTIFFS'
MOTION FOR FINAL APPROVAL OF
CLASS ACTION SETTLEMENT AND
PLAN OF ALLOCATION OF
SETTLEMENT PROCEEDS; AND LEAD
COUNSEL'S MOTION FOR AWARD OF
ATTORNEYS' FEES AND
REIMBURSEMENT OF EXPENSES

26 DATE: December 5, 2006
27 TIME: 9:00 a.m.
CTRM: The Honorable James Ware
28

1 I, Blaine F. Nye, declare and state as follows:

2 **INTRODUCTION**

3 1. I submit this declaration to set forth the bases for the expenses incurred by Lead
4 Counsel for the work performed by Stanford Consulting Group, Inc. ("SCG") in connection with the
5 *Cisco* securities litigation. SCG's work in connection with the *Cisco* litigation was performed under
6 the direct supervision of Lead Counsel, and was performed on an assignment basis. These services
7 were provided under my supervision and by other SCG employees during 2005-2006.

8 2. The purpose of this declaration is to summarize my professional qualifications, as
9 well as the services rendered by SCG in connection with the *Cisco* litigation.

10 **QUALIFICATIONS**

11 3. I am the president of SCG, with offices at 702 Marshall Street, Suite 200, Redwood
12 City, CA 94063. SCG provides research and consulting services relating to financial economics to
13 various clients, including government agencies, corporations and law firms.

14 4. I have served as a consultant and/or expert in the areas of market efficiency,
15 materiality, causation and damages in a number of securities fraud actions.

16 5. I am the principal individual at SCG who performed work in connection with the
17 *Cisco* litigation engagement. In addition, I supervised other employees at SCG who worked on this
18 assignment. In preparing various materials and in performing research, I was assisted in my efforts
19 by Jane Nettesheim, Brian Dragun and Bernadette Burns, as well as other associates of SCG.

20 6. I received a B.A. degree in physics from Stanford University, an M.S. degree in
21 physics from the University of Washington, an M.B.A. degree from Stanford University and a Ph.D.
22 in finance from Stanford University.

23 7. A summary of my qualifications is attached to this declaration as Exhibit A.

24 **DESCRIPTION OF SERVICES RENDERED**

25 8. SCG was retained by Lead Counsel to research, analyze and provide testimony on
26 issues relating to materiality, causation, market efficiency and the damages suffered by purchasers of
27 *Cisco* common stock from November 10, 1999 to February 6, 2001 (the "Class Period").
28

1 9. The work performed by SCG involved an extensive review of financial and other
2 documents provided to, or obtained by, SCG as well as interviews and consultations with plaintiffs'
3 counsel.

4 10. The documents reviewed by SCG that specifically relate to this litigation include:
5 (a) the Complaints filed in this matter;
6 (b) reports and analyses by plaintiffs' accounting expert D. Paul Regan;
7 (c) numerous internal Cisco documents relating to Cisco's financial condition;
8 (d) various third party documents obtained through the discovery process relating
9 to Cisco and its financial condition; and

10 (e) several briefs and the Court orders relating to class certification and loss
11 causation.

12 11. Additional documents and information reviewed by SCG in the course of this
13 litigation include:

14 (a) publicly-available documents filed by Cisco with the Securities and Exchange
15 Commission ("SEC");

16 (b) various press releases by Cisco;

17 (c) contemporaneous news articles relating to Cisco, as well as other similar
18 companies in the technology industry;

19 (d) transcripts of Cisco conference calls with securities analysts who followed
20 Cisco;

21 (e) scores of analyst reports on Cisco and other similar companies in the
22 technology industry issued before, during and after the Class Period;

23 (f) price and volume information relating to the reported activity in Cisco
24 common stock;

25 (g) stock price data for various other companies in the same industry as Cisco;

26 (h) market and industry indices;

27 (i) NYSE/AmEx/Nasdaq composite index data;

28 (j) market maker information relating to activity in Cisco's stock;

- (k) data regarding short interest positions held in Cisco stock;
- (l) database of intra-day trading in Cisco stock;
- (m) summary of analyst estimates for Cisco stock; and
- (n) summary of Nasdaq markets and statistics.

12. A key issue underlying damages in this matter was the allegedly false and misleading information about Cisco that was publicly available during the Class Period, which inflated Cisco's stock price. Consequently, my staff and I located and reviewed hundreds of articles, press releases, analyst reports, public filings, industry publications and trade journals, as well as other information relating to Cisco and to the technology industry in which Cisco competed. Many hours were spent locating, gathering, reading, analyzing and summarizing this considerable amount of material. These documents were necessary in order to provide SCG with an understanding of the publicly-available information on the various issues relating to Cisco's alleged fraud. It was important for SCG, in performing the damage analysis, to determine what information relating to the alleged fraud was known to the public and what information was unknown. In addition, these documents provided SCG with a thorough understanding of the numerous factors that were affecting Cisco, the market for its stock, as well as Cisco's competitors in the technology industry.

13. SCG conducted numerous computerized literature searches utilizing several on-line database services to ensure the completeness of the documents reviewed, including:

- (a) Fact SET Research Systems, Inc.;
- (b) Factiva;
- (c) First Call;
- (d) Investext;
- (e) Bloomberg; and
- (f) CRSP.

14. Much of the information on Cisco was condensed into a chronologically arranged report that was used in connection with the development of various analyses based on the price movements of Cisco common stock on and around days that contained substantive, relevant public announcements. Of great importance was February 6, 2001, when Cisco reported disappointing

1 earnings, and revised future guidance, revealing the problems plaintiffs allege should have been
2 disclosed at an earlier time. Based on the price movements of Cisco common stock, SCG created a
3 chronology report that allowed plaintiffs to determine whether particular false statements and
4 disclosures were material. Considerable time and effort went into the development of this analysis
5 to ensure its accuracy.

6 15. An important element of SCG's review of the relevant, publicly-available information
7 was to obtain and examine hundreds of analyst reports, Cisco's conference calls and analysts'
8 quarterly and annual earnings estimates for Cisco. This information was used to create a spreadsheet
9 showing the changes in earnings expectations after Cisco's February 6, 2001 disclosure of the fraud.
10 Furthermore, the analyst reports were reviewed to gain an understanding of what information was
11 publicly available regarding Cisco's alleged misstatements relating to sales of its products and
12 financial statement improprieties.

13 16. Daily price and volume data for Cisco common stock, as well as for the stocks of
14 other companies in a comparable industry index, were analyzed on a daily and weekly basis. An
15 industry weighted index based on companies comparable to Cisco was also created for comparison
16 purposes. The relationships between Cisco's stock price, the prices of other comparable companies'
17 stocks, industry indices and financial indices were graphically analyzed. These analyses were used,
18 in part, to determine the degree to which Cisco's stock price movements could be explained by the
19 industry and market forces.

20 17. SCG performed a computer analysis of institutional investor trading of Cisco
21 common stock by institutional shareholders as reported in quarterly 13-F filings with the SEC and
22 published by Thomson Financial. Quarterly data on the holdings of institutional investors,
23 including, but not limited to, banks, insurance companies and mutual funds, was obtained, organized
24 and analyzed in a database. This analysis was used to determine the institutional holding, sales and
25 retention patterns of Cisco common stock during the Class Period.

26 18. SCG determined the total number of shares which were available to be publicly
27 traded during each day of the Class Period. To arrive at the number of shares available to trade,
28 Cisco's reported shares issued and outstanding were increased by acquisitions and exercised options

1 and reduced by amounts held by reporting officers, directors, and affiliates of Cisco. Shares held
2 continuously by reporting institutions from the beginning of the Class Period through the end of the
3 Class Period were withheld from the calculation of damages. In addition, an estimate was made of
4 shares held continuously by non-institutions, which were withheld from the calculation of damages.
5 Reported monthly net increases in short interest in Cisco stock, pro-rated by daily volume, were
6 added to retained shares in the trading model. Similarly, reported monthly net decreases in short
7 interest were subtracted proportionately from retained shares in the trading model. The analysis
8 above, combined with the daily trading volume, formed the foundation for SCG's calculation of the
9 trading pattern in Cisco common stock during the Class Period.

10 19. At the request of Lead Counsel, SCG analyzed the damages suffered by members of
11 the Class who purchased Cisco common stock during the Class Period and who held Cisco stock at
12 the time Cisco made its February 6, 2001 announcement reporting disappointing earnings and
13 revised future guidance. This analysis was performed by building a daily value line based upon
14 plaintiffs' allegations. The value line represents the price at which Cisco common stock would have
15 traded absent the alleged fraud. SCG then calculated the inflation per share (the difference between
16 the daily price of the stock and the value of the stock) to purchasers of the common stock during the
17 Class Period. The inflation per share, sometimes referred to as damages per share, represents the
18 amount by which class members overpaid for Cisco's common stock during the Class Period.

19 20. To estimate the amount of aggregate damages suffered by the class members, SCG
20 employed a computer trading program. This computer trading program estimated the trading and
21 retention patterns of Cisco common stock based on reported trading volume, insider transactions,
22 changes in short interest and institutional ownership. No damages were calculated for these intra-
23 day trades. The premise of the computer model used by SCG is that shares bought on any particular
24 day are acquired, with equal proportionality, from shareholders who purchased on prior days.

25 21. Using the inflation per share and the trading and retention patterns, the computer
26 trading program calculated the aggregate damages caused by the alleged fraud. SCG provided Lead
27 Counsel with several preliminary calculations of damages that were determined to relate to
28 plaintiffs' allegations. Considerable time and effort were expended checking the accuracy and

1 completeness of this data. Damages were also estimated for the Lead Plaintiffs who owned Cisco
2 common stock during the Class Period.

3 22. Reported Nasdaq trading volume was reduced by 66% in consideration of market-
4 maker and other intra-day activity, so that the data on daily trading volume input to the model is 34%
5 of reported daily volume of trading in Cisco stock.

6 23. Analysts at SCG checked and reviewed the core data upon which SCG's damage
7 analyses were based. Documents were formulated and created to assist Lead Counsel in their
8 preparation, and charts were created by SCG to highlight specific events during the Class Period.
9 Much review and research was performed to ensure that my opinions were justifiable and that
10 statistics referred to, and/or utilized by me and by other members of SCG, in my analysis were
11 factually correct.

12 24. The price decline in Cisco common stock described above formed the basis for SCG's
13 final damage analysis.

14 25. During the period of my assignment, I met several times with Lead Counsel to
15 discuss my assignment and my deposition. I also traveled to San Francisco to provide expert
16 testimony in a one-and-a-half-day deposition. Finally, I reviewed my deposition transcript for
17 accuracy and made necessary corrections.

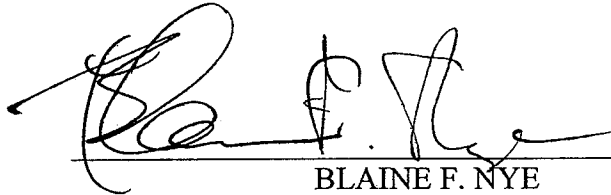
18 FEES AND EXPENSES

19 26. Pursuant to a non-contingent engagement by plaintiffs' counsel, my firm expended
20 1,187.0 hours of time. This figure includes the hours that I worked, the hours worked by Jane
21 Nettesheim, Brian Dragun and Bernadette Burns, and the time invested by many other members of
22 the SCG staff, including research, computer and support personnel. The fee for the services
23 rendered by me and my firm aggregated \$489,969. Plaintiffs' counsel has paid my fees and
24 expenses related to this matter.

1 27. Attached hereto as Exhibit B is a summary further detailing the total fees and
2 expenses totaling \$489,969.

3 I declare under penalty of perjury under the laws of the United States of America that the
4 foregoing is true and correct. Executed this 13th day of November, 2006, at Redwood City,
5 California.

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BLAINE F. NYE

CERTIFICATE OF SERVICE

I hereby certify that on November 20, 2006, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the e-mail addresses denoted on the attached Electronic Mail Notice List, and I hereby certify that I have mailed the foregoing document or paper via the United States Postal Service to the non-CM/ECF participants indicated on the attached Manual Notice List.

s/Spencer A. Burkholz

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